



STABLER

WEALTH MANAGEMENT

Washington State Tax Update

The recent court decision upholding the Washington State capital gains tax may have caught you by surprise, so we wanted to provide a summary of the landscape around what's going on with that, as well as an update on the long-term care tax set to kick in later this year. Below is what you need to know:

Capital Gains Tax

Refresher

Back in the summer of 2021, the Washington State legislature established a new tax on capital gains in our state. The tax itself was a 7% tax on any gains in excess of \$250,000 (with some exclusions such as real estate and retirement accounts). Critics of the tax quickly filed lawsuits claiming that the tax violated the Washington State constitution. In March of 2022, the Douglas County Superior Court sided with opponents of the tax and ruled it unconstitutional. The state then appealed the court's decision up to the state Supreme Court. This gave the state permission to collect the tax while we await a final decision on the legality of the tax.

Where are We Now?

On March 24th, 2023, the Washington State Supreme Court ruled in favor of the state, declaring the tax legal. Because the tax was passed back in 2021, and set to take effect January 1st, 2022, this means that you may owe capital gains tax for 2022. Tax payments and returns for 2022 are due on April 18th, 2023 (the same day as your federal income taxes).

What should I do now?

If you had more than \$250,000 of capital gains in 2022, you'll want to discuss your specific scenario with your tax advisor. The state has indicated that it will charge penalties and interest on returns or payments not received on time. If you have questions, please reach out to our office.

What Happens Next?

Going forward, it's going to be very important to work with your wealth advisor (just like with your federal taxes and estate taxes) to make sure you're planning for this tax in the most thoughtful way. With some proactive planning, it should be manageable for most folks to stay under the \$250,000 threshold each year. We will of course keep our finger on the pulse of how this tax potentially paves the way for an eventual state income tax.

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Long-Term Care Tax

Refresher

Back in 2019 (before many of us had ever heard the terms "social distancing" or "new normal"), the state legislature established the Long-Term Services and Supports Program (now known as the WA Cares Fund), which set up a program to provide long-term care services to eligible residents of WA, with a lifetime cap of \$36,500 (adjusted for inflation). To pay for this, the state will collect "premiums" (tax) of 0.58% on all employees' wages (salary, bonus, vacation pay, stock awards, etc.) with no cap on the amount of wages subject to the tax. For some context, that means that with Geno Smith's new 3-year \$105 million contract, he'd pay \$609,000 over those three years, while someone making \$100,000 per year would pay \$1,740 over the same period. In 2021, the state opened the door for people to apply for an exemption from this program if they had a long-term care policy in place prior to November 1st, 2021. Then, in 2022, the program was put on hold until July 2023.

Where are We Now?

Washington employers will begin collecting "contributions" starting July 1st, 2023 for any employees without an exemption. At this point, the exemption application window for having your own long-term care policy is closed, although some people with unique circumstances may still apply for an exemption. Benefits will first become available for qualified, eligible individuals in July of 2026.

What should I do now?

If you applied for an exemption back in 2021, and were approved, you should have a letter from the state's employment security department that you'll want to provide to your employer's HR or payroll department. If you were approved for an exemption, but can't find your letter, no worries! Just go online to the "SecureAccessWA" website, navigate to the Paid Family and Medical Leave (PFML) program, and you can download your letter from there. Then put it in a safe spot because you'll need to provide this letter to any potential future employers as well. It's that easy! If you bought a policy specifically to qualify for the exemption, the state has indicated that you do not need to hang onto that to maintain your exemption – all you'll need is your letter. Whether you choose to continue to maintain a policy or not is up to you based on the merits of the policy itself.

Contact us to schedule a no cost consultation with one of our Certified Financial Planners.
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Please tune in to our website blog (www.stablerwealthmanagement.com), YouTube channel and LinkedIn page to receive our latest financial planning updates for Microsoft professionals.

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